

**REPORT OF THE AUDIT OF THE
FORMER WOLFE COUNTY
SHERIFF**

**For The Period
January 1, 2009 Through June 22, 2009**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER WOLFE COUNTY SHERIFF

**For The Period
January 1, 2009 Through June 22, 2009**

The Auditor of Public Accounts has completed the former Wolfe County Sheriff's audit for the period January 1, 2009 through June 22, 2009. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$16,761 from the prior year, resulting in excess fees of \$17,032 for the period January 1, 2009 through June 22, 2009. Revenues decreased by \$98,868 from the prior year and expenditures decreased by \$115,629.

Debt Obligations:

Capital lease principal agreements totaled \$1,390 as of June 22, 2009. Future principal and interest payments of \$1,390 are needed to meet these obligations.

Report Comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Raymond Hurst, Wolfe County Judge/Executive
The Honorable Henry V. "Rocky" Dunn, Former Wolfe County Sheriff
The Honorable Chris Carson, Wolfe County Sheriff
Members of the Wolfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Wolfe County, Kentucky, for the period January 1, 2009 through June 22, 2009. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the period January 1, 2009 through June 22, 2009, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 13, 2009 on our consideration of the former Wolfe County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Raymond Hurst, Wolfe County Judge/Executive
The Honorable Henry V. "Rocky" Dunn, Former Wolfe County Sheriff
The Honorable Chris Carson, Wolfe County Sheriff
Members of the Wolfe County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Wolfe County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

October 13, 2009

WOLFE COUNTY
HENRY V. "ROCKY" DUNN, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Period
January 1, 2009 Through June 22, 2009

Revenues

Federal Grants	\$	1,394	
State - Kentucky Law Enforcement Foundation Program Fund			1,493
State Fees For Services:			
Finance and Administration Cabinet	\$	5,557	
Cabinet for Health and Family Services		570	
Sheriff Security Service		<u>8,507</u>	14,634
Circuit Court Clerk:			
Fines and Fees Collected			1,703
Fiscal Court			14,070
County Clerk - Delinquent Taxes			100
Commission On Taxes Collected			15,307
Fees Collected For Services:			
Auto Inspections		500	
Accident and Police Reports		54	
Serving Papers		6,088	
Carrying Concealed Deadly Weapon Permits		1,200	
Transporting Prisoners		1,315	
Add-on Fees		13,739	
Miscellaneous		<u>502</u>	23,398
Interest Earned			121
Borrowed Money:			
State Advancement			<u>14,938</u>
Total Revenues			87,158

The accompanying notes are an integral part of this financial statement.

WOLFE COUNTY
 HENRY V. "ROCKY" DUNN, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Period January 1, 2009 Through June 22, 2009
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-		
Deputies' Salaries	\$	11,472
Other Salaries		12,010
Contracted Services-		
Vehicle Maintenance and Repairs		2,565
Transporting Prisoners		80
Materials and Supplies-		
Office Materials and Supplies		461
Uniforms		363
Auto Expense-		
Gasoline		6,639
Other Charges-		
Post Box Rental		42
Postage		157
Telephone		940
Checks and Deposit Books		132
Miscellaneous		426
Capital Outlay-		
Office Equipment		441
		<hr/>
Total Expenditures	\$	<hr/> 35,728
Net Revenues		51,430
Less: Statutory Maximum		<hr/> 34,398
Excess Fees		17,032
Payment to Fiscal Court - August 25, 2009		<hr/> 17,032
Balance Due Fiscal Court	\$	<hr/> <hr/> 0

The accompanying notes are an integral part of this financial statement.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT

June 22, 2009

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at June 22 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for January 1, 2009 through June 22, 2009 services
- Reimbursements for January 1, 2009 through June 22, 2009 activities
- Tax commissions due from June tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided for January 1, 2009 through June 22, 2009

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT
June 22, 2009
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.50 percent for the period January 1, 2009 through June 22, 2009.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Wolfe County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the former Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the former Sheriff's deposits may not be returned. The former Wolfe County Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of June 22, 2009, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease

The former Sheriff's office was committed to a lease agreement with Xerox Corporation for a copier. The agreement requires a monthly payment of \$46 for 60 months to be completed on January 1, 2012. The total remaining balance of the agreement was \$1,391 as of June 22, 2009.

WOLFE COUNTY
NOTES TO FINANCIAL STATEMENT
June 22, 2009
(Continued)

Note 5. State Advancement

The former Sheriff's office obtained a state advancement for \$30,000 for calendar year 2009. The former Sheriff received \$14,938 for the period January 1, 2009 through June 22, 2009. The current Sheriff will receive the remainder of the state advancement during his 2009 term and will reimburse the total \$30,000 with commissions earned on tax collection.

Note 6. Special Account

The former Sheriff's office received \$1,540 for donations for the period January 1, 2009 through June 22, 2009. A special account was opened to maintain and track donated funds from outside parties. The account had a beginning balance of \$200 as of January 1, 2009 and expenditures from the account during the period totaled \$200. As of June 22, 2009, the account had a balance of \$1,540. These funds were transferred to the current Sheriff upon vacation of office.

Note 7. Grant

The former Sheriff's office received a \$3,400 grant from the United States Forest Service for patrolling the Daniel Boone National Forest. The grant is based on reimbursements for actual time spent patrolling the national forest from April 1, 2009 through September 30, 2009. The former Sheriff received \$1,394 as reimbursements for the period January 1, 2009 through June 22, 2009.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Raymond Hurst, Wolfe County Judge/Executive
The Honorable Henry V. "Rocky" Dunn, Former Wolfe County Sheriff
The Honorable Chris Carson, Wolfe County Sheriff
Members of the Wolfe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Wolfe County Sheriff for the period January 1, 2009 through June 22, 2009, and have issued our report thereon dated October 13, 2009. The former Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Wolfe County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Wolfe County Sheriff's financial statement for the period January 1, 2009 through June 22, 2009, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Wolfe County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

October 13, 2009

COMMENT AND RECOMMENDATION

WOLFE COUNTY
HENRY V. "ROCKY" DUNN, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Period January 1, 2009 Through June 22, 2009

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

The former Sheriff's office lacked adequate segregation of duties over receipts and disbursements. Due to the entity's diversity of official operations, small size, and budget restrictions, the former Sheriff had limited options for establishing an adequate segregation of duties. The bookkeeper collected receipts, recorded transactions, issued and signed checks, and posted amounts to the receipts and disbursements ledgers. The former Sheriff should have either segregated these duties or performed the following compensating controls to help offset this weakness:

- Agreed daily deposits to the daily checkout sheet and the receipts ledger.
- Agreed quarterly financial reports to the receipts and disbursements ledger.
- Compared invoices to payments and signed all checks.
- Performed surprise cash counts of receipts.

The former Sheriff could have documented these compensating controls by initialing the supporting documentation reviewed.

Former Sheriff's Response: None.

